

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
Orange City, Iowa**

**FINANCIAL REPORT**

**June 30, 2004**

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**Orange City Municipal Hospital  
d/b/a Orange City Health System  
OFFICIALS**

**Before January, 2004**

**Board of Trustees**

Paul Koets, Chairman  
Tim Zeutenhorst, Vice Chairman  
Les Douma, Secretary  
Randy Jacobsma  
Shirley VanWechel

**Expiration of term**

January, 2006  
January, 2004  
January, 2006  
January, 2004  
January, 2004

**Administrator**

Martin W. Guthmiller

**Chief Financial Officer**

Dina A. Baas

**After January, 2004**

**Board of Trustees**

Paul Koets, Chairman  
Tim Zeutenhorst, Vice Chairman  
Les Douma, Secretary  
Randy Jacobsma  
Shirley VanWechel

**Expiration of term**

January, 2006  
January, 2008  
January, 2006  
January, 2008  
January, 2008

**Administrator**

Martin W. Guthmiller

**Chief Financial Officer**

Dina A. Baas

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Orange City Municipal Hospital  
d/b/a Orange City Health System  
Orange City, Iowa

We have audited the accompanying balance sheets of Orange City Municipal Hospital, d/b/a Orange City Health System, a component unit of the City of Orange City, Iowa, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. We have audited the statement of financial position of Orange City Area Health Foundation, a component unit of Orange City Municipal Hospital, as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications amounts comprising the balance sheet of the Orange City Area Health Foundation as of June 30, 2003.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the results of operations and cash flows of the Orange City Area Health Foundation for the year ended June 30, 2004, or on the consistency of application of accounting principles with the preceding year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Municipal Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statement of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Hospital adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as of and for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004, on our consideration of Orange City Municipal Hospital's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 13, 2004

## **Orange City Health System Management's Discussion and Analysis**

As management of Orange City Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2004, 2003 and 2002. Please read it in conjunction with the Health System's financial statements, which follow this section.

### **Financial Highlights**

- Total assets increased by \$2,315,922 from FY 2003 or 11.6% to \$22,215,926
- Total assets whose use is limited increased by \$245,380 from FY 2003 or 6.8%
- Total fund equity increased by \$1,614,576 from FY 2003
- Total long-term debt decreased by \$613,960 from FY 2003
- Net patient service revenue increased by \$1,726,276 from FY 2003, primarily due to an increase in ambulatory surgical procedures and the related supporting services
- Expenses increased by \$1,315,357 from FY 2003

### **Overview of the Financial Statements**

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **Required Financial Statements**

The financial statements of Orange City Health System report information of the Health System using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Health System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Health System's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Health System operations over the past year and can be used to determine whether the Health System has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### Orange City Health System's Fund Equity

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the fund equity of Orange City Health System and the changes in them. Orange City Health System's fund equity – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in fund equity are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

A summary of Orange City Health System's balance sheets at June 30, 2004, 2003 and 2002 are presented in Table 1.

Table 1: Assets, Liabilities, and Fund Equity (in Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 5,712	\$ 5,468	\$ 5,975
Assets whose use is limited, net of current	3,264	3,041	1,741
Capital assets, net	13,089	11,258	11,246
Other assets	<u>151</u>	<u>133</u>	<u>74</u>
Total assets	<u>\$22,216</u>	<u>\$19,900</u>	<u>\$19,036</u>
Liabilities:			
Long-term debt outstanding	\$ 3,957	\$ 4,571	\$ 5,165
Other current and noncurrent liabilities	<u>4,547</u>	<u>3,231</u>	<u>2,646</u>
Total liabilities	<u>\$ 8,504</u>	<u>\$ 7,802</u>	<u>\$ 7,811</u>
Fund equity:			
Investment in capital assets, net of related debt	\$ 8,506	\$ 6,087	\$ 5,515
Restricted	781	784	782
Unrestricted	<u>4,425</u>	<u>5,227</u>	<u>4,928</u>
Total fund equity	<u>\$13,712</u>	<u>\$12,098</u>	<u>\$11,225</u>

A significant component of the change in the assets of Orange City Health System is the increase in assets designated by board for deferred compensation, a nonqualified voluntary deferral plan. The asset and related liability increased by \$500,000. The most remarkable change, capital assets, is presented in table 4. Assets designated by board for plant replacement and expansion decreased by \$250,000 due to the planned acquisition of a CT scanner in June. Management intends to purchase a nursing home building for \$380,000, further depleting board designated assets. The nursing home is currently operated under a lease expiring December 31, 2004. Management made a concerted effort to avoid assuming new debt with these acquisitions.

## Operating Results and Changes in Orange City Health System's Fund Equity

In 2004, fund equity increased by \$1,614,576 or 13.3% over the prior year. The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2004, 2003 and 2002.

Table 2: Operating Results and Changes in Fund Equity (in Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Net patient service revenue	\$21,869	\$20,143	\$18,717
Other operating revenue	<u>1,605</u>	<u>1,208</u>	<u>1,166</u>
Total operating revenue	<u>23,474</u>	<u>21,351</u>	<u>19,883</u>
Operating Expenses:			
Salaries and benefits	13,474	12,506	11,055
Provision for depreciation and amortization	1,024	1,023	993
Other operating expenses	<u>7,112</u>	<u>6,765</u>	<u>6,640</u>
Total operating expenses	<u>21,610</u>	<u>20,294</u>	<u>18,688</u>
Operating income	1,864	1,057	1,195
Nonoperating revenues and expenses:			
Investment income	72	82	115
Interest expense	(300)	(330)	(358)
Other nonoperating revenues and expenses, net	<u>(22)</u>	<u>48</u>	<u>13</u>
Total nonoperating revenues (expenses)	<u>(250)</u>	<u>(200)</u>	<u>(230)</u>
Excess of revenues over expenses before contributions	1,614	857	965
Contributions	<u>—</u>	<u>16</u>	<u>214</u>
Change in fund equity	1,614	873	1,179
Total fund equity, beginning	<u>12,098</u>	<u>11,225</u>	<u>10,046</u>
Total fund equity, ending	<u>\$13,712</u>	<u>\$12,098</u>	<u>\$11,225</u>

### Operating and Financial Performance

The following summarizes Orange City Health System's statement of revenue, expenses and changes in fund equity between June 30, 2004, 2003 and 2002.

**Net Patient Service Revenue:** Net patient service revenue is a product of volume, price increases and payer mix.

**Volume:** Inpatient admissions (excluding normal newborns) for fiscal year 2004 were 1,249 compared to 1,230 in fiscal year 2003. The average length of stay remained at 3.7, resulting in an increase of 215 days. Volume on the outpatient side saw positive growth in 2004. Outpatient surgical procedures increased 16% from 2003 to 2004. Continued participation in an Ultrasound Tech Pool with area hospitals has resulted in a broader range of services to be offered for both diagnostic and screening purposes. This collaboration has resulted in Orange City Health System's ability to offer Ultrasound Tech coverage 24 hours a day, seven days a week, contributing to a 19%

increase in procedures. Outpatient visits, in the aggregate, increased 12%.

**Price increase:** Due to a weighted average price increase of 3.5% effective July 1, 2003, and the increase in patient volumes discussed above, net patient service revenues climbed by \$1.7 million, or 8.6% as compared to 2003.

**Payer mix:** Medicare reimburses hospitals and health systems under the prospective payment system. Payments are determined in advance for inpatients using a DRG (diagnostic related groups) system and outpatients are assigned to an APC (ambulatory payment classification). 60% of the prospectively determined rate, is comprised of labor costs (wage index), the remaining 40% is the non-labor portion. These rates are adjusted annually, based on information compiled from cost reports on file with the Medicare program. Historically, the rate adjustments have been slightly behind Orange City Health System's price increases, resulting in a higher contractual adjustments or the difference between charges and the payment rate. Contractual adjustments increased by \$1,340,527 from \$5,306,005 in 2003 to \$6,646,532. This represents 22% of gross patient charges. Medicaid and Wellmark employ similar payment methodologies.

The following table displays the percentages of gross charges for patient services by payer for the years ended June 30, 2004, 2003 and 2002.

Table 3: Payer Mix

	<u>Year ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare	42.9%	43.8%	45.6%
Wellmark	23.3%	20.1%	19.5%
Medicaid	4.9%	5.2%	3.4%
PPO	7.9%	13.5%	17.1%
Commercial Insurance	18.7%	15.0%	12.5%
Self Pay	<u>2.3%</u>	<u>2.4%</u>	<u>1.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, decreased from 86% in 2003 to 85% in 2004. A 4% increase in room rates became effective July 1, 2003.

### Expenses

Sixty percent of Orange City Health System's expenses are attributed to salaries and benefits. Labor shortages in key areas, such as nursing and radiology, and rising health insurance costs have contributed to an 8% increase. Total salaries and benefits increased by approximately \$970,000, from \$12.5 million to \$13.47 million. Fiscal and administrative services and unassigned expenses increased 6% from \$3.32 million in 2003 to \$3.51 million in 2004. Professional services increased by 11% from \$9.78 million in 2003 to 10.84 million in 2004, primarily due to an increase in surgical and diagnostic procedures.

## Capital Assets and Debt Administration

### Capital Assets

At the end of 2004, Orange City Health System had \$13.089 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment. On June 6, 2004, Orange City Health System hosted a ground-breaking ceremony for a replacement medical campus. The new campus is being constructed on a 37-acre site on the southeastern edge of Orange City. The 128,000 square-foot facility will permit consolidation of diagnostic and outpatient services, provide modern, private patient rooms and more private waiting and recovery areas, as well as providing ample parking, convenience and better accessibility. OCHS will have space available to accommodate additional specialty programs, increasing the ability to serve people locally. The campus is projected to cost \$30 million, including site acquisition, construction costs, furnishings and equipment and capitalized financing. Nearly \$2 million of project costs has been incurred to date. The project will be funded from 3 primary sources. The largest part of the cost will be financed through a collaborative effort by local banks, resulting in a \$20 million loan to be 90% USDA guaranteed. Voters of Orange City and Alton have overwhelmingly approved a bond issue of \$4 million. And, the Orange City Health System is seeking \$4.5 - \$5 million in philanthropic support from the communities it will serve. \$4.1 million of pledges were made during the year to the Orange City Area Health Foundation. Note 6 to the financial statements details pledge activity.

The following table summarizes Orange City Health System's capital assets as of June 30, 2004, 2003 and 2002.

Table 4: Capital Assets (in Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$ 601	\$ 601	\$ 601
Land improvements	329	322	315
Buildings	10,533	10,524	9,971
Fixed equipment	3,378	3,378	3,363
Major moveable equipment	6,548	6,084	5,704
Construction in progress	<u>1,917</u>	<u>31</u>	<u>143</u>
Total	23,306	20,940	20,097
Less accumulated depreciation and amortization	<u>(10,217)</u>	<u>(9,682)</u>	<u>(8,851)</u>
Net property and equipment	<u>\$13,089</u>	<u>\$11,258</u>	<u>\$11,246</u>

### Long -Term Debt

At June 30, 2004, Orange City Health System had \$4.58 million in short and long-term debt related to hospital revenue bonds. This decreased by \$535,000 from 2003. Obligations under capital leases of \$65,347 decreased by \$53,482 from 2003. No new long-term debt was incurred in the current year. More detailed information is presented in Note 7 to the Financial Statements.

## Performance Compared to Budget

The following table compares fiscal year 2004 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	Budget	Actual	Dollar Variance	Percent Variance
Gross patient service revenue	\$28,222	\$28,870	\$ 648	2.3%
Contractual adjustments	(6,156)	(6,647)	(491)	(8.0%)
Provision for bad debts	(152)	(259)	(107)	(70.7%)
Charity care	<u>(300)</u>	<u>(96)</u>	<u>204</u>	<u>68.0%</u>
Net patient service revenue	21,614	21,868	254	1.2%
Other operating revenue	<u>1,253</u>	<u>1,606</u>	<u>353</u>	<u>2.8%</u>
Total operating revenue	22,867	23,474	607	2.7%
Operating expenses	<u>21,159</u>	<u>21,610</u>	<u>(451)</u>	<u>(2.2%)</u>
Operating income	1,708	1,864	156	9.2%
Income from investments	80	72	(8)	(10.0%)
Other nonoperating	<u>(320)</u>	<u>(322)</u>	<u>(2)</u>	<u>(.5%)</u>
Excess of revenues over expenses	<u>\$ 1,468</u>	<u>\$ 1,614</u>	<u>\$ 146</u>	<u>10.0%</u>

## Economic and Other Factors and Next Year's Budget

Orange City Health System's Board and management considered many factors when setting the fiscal year 2005 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- The aging of the population in our market area
- Major employers
- Privacy legislation (HIPAA)
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements

## Contacting Orange City Health System's Finance Department

Orange City Health System's financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Health System's accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Health System, 400 Central Ave NW, Orange City, IA 51041.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
BALANCE SHEETS**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,662,299	\$ 1,349,751
Assets whose use is limited, required for current liabilities	591,391	568,736
Patient receivables, less allowance for contractual adjustments and uncollectible accounts		
2004 \$1,584,656; 2003 \$1,084,632	2,648,879	2,942,841
Estimated third-party payor settlements	-	126,288
Other receivables	249,349	10,453
Inventories	481,357	402,812
Prepaid expenses	79,189	67,595
Total current assets	5,712,464	5,468,476
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	716,510	1,040,794
Certificates of deposit	849,578	857,170
U.S. Government agency securities	93,434	19,333
Accrued interest receivable	8,547	10,214
	1,668,069	1,927,511
Designated by board for deferred compensation		
Mutual funds	1,405,510	898,243
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	108,066	106,239
Certificates of deposit	670,000	670,000
	778,066	776,239
Restricted by donors for specific purpose		
Cash	3,426	7,697
Total assets whose use is limited	3,855,070	3,609,690
Less assets whose use is limited and that are required for current liabilities	591,391	568,736
Noncurrent assets whose use is limited	3,263,679	3,040,954
<b>PROPERTY AND EQUIPMENT</b>	23,305,517	20,940,249
Less accumulated depreciation and amortization	10,216,801	9,682,448
Total property and equipment	13,088,716	11,257,801
<b>OTHER ASSETS</b>		
Unamortized financing costs	8,378	9,577
Other	142,688	123,196
Total other assets	151,066	132,773
Totals	\$22,215,926	\$19,900,004

See Notes to Financial Statements.

		<b>June 30</b>	
<b>LIABILITIES AND FUND EQUITY</b>		<b>2004</b>	<b>2003</b>
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 625,090	\$ 599,823
Accounts payable		1,231,585	614,608
Accrued payroll and vacation pay		1,081,555	834,740
Payroll taxes		148,549	125,224
Accrued interest payable		21,391	23,736
Accrued property taxes		-	100,000
Deposits		32,500	34,500
		<u>3,140,670</u>	<u>2,332,631</u>
<b>LONG-TERM DEBT</b>			
Hospital revenue capital loan notes		4,517,036	5,052,247
Obligation under capital lease		<u>65,347</u>	<u>118,829</u>
		4,582,383	5,171,076
Less current maturities		<u>625,090</u>	<u>599,823</u>
Total long-term debt		<u>3,957,293</u>	<u>4,571,253</u>
<b>OTHER LIABILITIES</b>			
Deferred compensation liability		<u>1,405,510</u>	<u>898,243</u>
Total liabilities		8,503,473	7,802,127
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND EQUITY</b>			
Invested in capital assets, net of related debt		8,506,333	6,086,725
Restricted		781,492	783,936
Unrestricted		<u>4,424,628</u>	<u>5,227,216</u>
Total fund equity		<u>13,712,453</u>	<u>12,097,877</u>
		<u>22,215,926</u>	<u>19,900,004</u>
Totals		<u>\$22,215,926</u>	<u>\$19,900,004</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>NET PATIENT SERVICE REVENUE</b> , net of provisions for bad debts 2004 \$259,388; 2003 \$171,097	\$21,868,988	\$20,142,712
<b>OTHER REVENUE</b>	<u>1,605,288</u>	<u>1,208,252</u>
Total revenue	<u>23,474,276</u>	<u>21,350,964</u>
<b>EXPENSES</b>		
Nursing service	5,233,759	5,232,058
Other professional service	10,839,802	9,783,270
General service	998,681	932,964
Fiscal and administrative service and unassigned expenses	3,513,759	3,323,199
Provision for depreciation and amortization	<u>1,023,553</u>	<u>1,022,706</u>
Total expenses	<u>21,609,554</u>	<u>20,294,197</u>
Operating income	<u>1,864,722</u>	<u>1,056,767</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment income	72,112	82,204
Interest expense	(299,419)	(330,131)
Gain (loss) on disposal of equipment	(21,629)	33,500
Nonoperating (loss) from auxiliary activity, net	(4,270)	(1,006)
Unrestricted contributions	<u>3,060</u>	<u>15,215</u>
Total nonoperating gains (losses)	<u>(250,146)</u>	<u>(200,218)</u>
Excess of revenues over expenses before contributions	1,614,576	856,549
<b>CONTRIBUTIONS</b>		
Change in fund equity	<u>—</u>	<u>16,500</u>
	1,614,576	873,049
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>12,097,877</u>	<u>11,224,828</u>
Ending	<u>\$13,712,453</u>	<u>\$12,097,877</u>

See Notes to Financial Statements.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$22,289,238	\$20,091,979
Cash paid to suppliers for goods and services	(7,633,689)	(7,018,678)
Cash paid to employees for services	(12,891,812)	(12,339,514)
Other operating revenue received	<u>1,562,110</u>	<u>1,198,533</u>
Net cash provided by operating activities	<u>3,325,847</u>	<u>1,932,320</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating (loss) from auxiliary activities, net	(4,270)	(1,006)
Unrestricted contributions received	3,060	15,215
Restricted contributions	<u>—</u>	<u>16,500</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,210)</u>	<u>30,709</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(2,456,829)	(1,155,209)
Proceeds from sale of equipment	—	33,500
Principal paid on long-term debt	(598,483)	(569,587)
Interest paid on long-term debt	<u>(290,775)</u>	<u>(321,318)</u>
Net cash (used in) capital and related financing activities	<u>(3,346,087)</u>	<u>(2,012,614)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(879,780)	(1,107,159)
Proceeds from maturities of certificates of deposit	837,373	1,050,815
Proceeds from maturity of U.S. Government Securities	23,237	21,618
Purchase of government securities	(47,338)	—
Capital contribution to Northwest Iowa Diagnostics	—	(13,000)
Interest received	<u>73,778</u>	<u>86,462</u>
Net cash provided by investing activities	<u>7,270</u>	<u>38,736</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(14,180)	(10,849)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>2,504,481</u>	<u>2,515,330</u>
Ending	<u>\$ 2,490,301</u>	<u>\$ 2,504,481</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
STATEMENTS OF CASH FLOWS (continued)**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$1,864,722	\$1,056,767
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,023,553	1,022,706
Education assistance advances	(12,622)	(11,804)
Education assistance advances forgiven	6,901	15,875
Physician advances	(7,500)	(95,000)
Physician advances forgiven	34,375	45,834
Changes in assets and liabilities		
Decrease in patient receivables	293,962	75,555
(Increase) decrease in estimated third-party payor settlements	126,288	(126,288)
(Increase) in other receivables, net of nonoperating activities	(279,542)	(9,519)
(Increase) in inventories	(78,545)	(22,632)
(Increase) decrease in prepaid expenses	(11,594)	9,667
Increase in accounts payable, net of amounts for property and equipment	197,709	26,836
Increase (decrease) in accrued payroll and vacation pay	246,815	(12,579)
Increase (decrease) in payroll taxes	23,325	(52,898)
Increase (decrease) in accrued property taxes	(100,000)	10,000
(Decrease) in deposits	(2,000)	(200)
Net cash provided by operating activities	<u>\$3,325,847</u>	<u>\$1,932,320</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS</b>		
Per balance sheets		
Current assets, cash and cash equivalents	\$1,662,299	\$1,349,751
Assets whose use is limited		
Designated by board for plant replacement and expansion	716,510	1,040,794
Restricted for payment of revenue notes and interest	108,066	106,239
Restricted by donors for specific purpose	<u>3,426</u>	<u>7,697</u>
Total per statements of cash flows	<u>\$2,490,301</u>	<u>\$2,504,481</u>

See Notes to Financial Statements.

**Orange City Area Health Foundation**  
**(A Component Unit of Orange City Municipal Hospital)**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2004**

**ASSETS**

Cash	\$ 724,698
Certificates of deposit	16,805
Capital campaign pledges receivable, net of allowance of \$200,000 and discount of \$280,450	3,011,630
Land	197,337
Other	<u>2,082</u>
Total assets	<u>\$3,952,552</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable, Orange City Municipal Hospital	\$ <u>10,984</u>
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**NET ASSETS**

Unrestricted	279,830
Temporarily restricted	<u>3,661,738</u>
Total net assets	<u>3,941,568</u>
Total liabilities and net assets	<u>\$3,952,552</u>

**Orange City Area Health Foundation**  
**(A Component Unit of Orange City Municipal Hospital)**  
**STATEMENT OF ACTIVITIES**

	Year ended June 30, 2004		
	Unrestricted	Temporarily restricted	(Unaudited) Total
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 9,465	\$3,661,738	\$3,671,203
Interest income	3,418	-	3,418
Other	6,090	-	6,090
Total support and revenue	<u>18,973</u>	<u>3,661,738</u>	<u>3,680,711</u>
<b>EXPENSES</b>			
Contributions	<u>3,748</u>	<u>-</u>	<u>3,748</u>
Supporting services			
Management and general			
Management	30,945	-	30,945
Property taxes	2,042	-	2,042
Office supplies	547	-	547
Miscellaneous	2,546	-	2,546
Total management and general	<u>36,080</u>	<u>-</u>	<u>36,080</u>
Fundraising			
Advertising and marketing	26,360	-	26,360
Postage and shipping	4,260	-	4,260
Professional fees	130,576	-	130,576
Fundraising event	9,607	-	9,607
Total fundraising	<u>170,803</u>	<u>-</u>	<u>170,803</u>
Total expenses	<u>210,631</u>	<u>-</u>	<u>210,631</u>
<b>CHANGE IN NET ASSETS</b>	<u>(191,658)</u>	<u>3,661,738</u>	<u>3,470,080</u>
<b>NET ASSETS</b> , beginning of year	<u>471,488</u>	<u>-</u>	<u>471,488</u>
<b>NET ASSETS</b> , end of year	<u>\$ 279,830</u>	<u>\$3,661,738</u>	<u>\$3,941,568</u>

See Notes to Financial Statements.

**Orange City Area Health Foundation**  
**(A Component Unit of Orange City Municipal Hospital)**  
**STATEMENT OF CASH FLOWS**  
**Year ended June 30, 2004**

	<u><b>Unaudited</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$3,470,080
Adjustments to reconcile change in net assets to net cash provided by operating activities	
(Increase) in capital campaign pledges receivable	(3,011,630)
Decrease in other assets	1,200
Increase in accounts payable, Orange City Municipal Hospital	<u>531</u>
Net cash provided by operating activities	<u>460,181</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of certificates of deposit	<u>(352)</u>
 <b>NET INCREASE IN CASH</b>	 459,829
 <b>CASH</b>	
Beginning	<u>264,869</u>
Ending	<u>\$ 724,698</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Hospital is the municipal hospital of the City of Orange City, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Municipal Hospital, d/b/a Orange City Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2004, Orange City Municipal Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation, and the Hospital will be dependent on the Foundation for financial assistance during the construction of a replacement health campus. The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

**Measurement Focus and Basis of Accounting**

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had \$3,661,738 of temporarily restricted net assets at June 30, 2004. These net assets are to be used for construction expenses incurred during the building of a new health campus.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2004.

**Accounting Estimates and Assumptions**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Investments and Investment Income**

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Open-end mutual funds Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company) Publicly traded mutual funds	Fair value determined by current share price Fair value based on quoted market prices
Debt securities Negotiable certificates of deposit and U.S. Government Agency Securities Maturity of one year or less when purchased Maturity of more than one year when purchased	Amortized cost Fair value based on quoted market prices

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments. Investment income is reported as nonoperating gains.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations are recorded as additions at fair value at the date of receipt.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Depreciation and amortization are computed using these asset lives:

Land improvements	5 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	5 to 25 years

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market.

**Pledges Receivable**

Unconditional pledges receivable are recorded as receivables and contributions in the year received.

**Contributions**

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

**Fund Equity**

Fund equity is presented in the following three components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the revenue notes and capital lease obligations that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted fund equity**

Restricted fund equity consists of funds restricted on which constraints have been externally imposed by creditors (such as through debt covenants) grantors, contributors, or laws or regulations of other governments.

**Unrestricted fund equity**

Unrestricted fund equity has no externally imposed restrictions on use.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and Cash Equivalents**

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT amount to be cash equivalents.

**Statements of Revenues, Expenses, and Changes in Fund Equity**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

**Net Patient Service Revenue**

Patient service revenue is reported at the Hospital's established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Credit Policy**

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Costs of Borrowing**

Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method.

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district, and common stocks.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. At June 30, 2004 and 2003, all of the Hospital's investments, except the mutual funds, are in a category characterized as investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are in a category characterized as investments that are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS (continued)**

As of June 30, 2004 and 2003, the Hospital had bank balances, certificates of deposit, and investments as follows:

	<u>2004</u>	<u>2003</u>
Bank balances		
Insured by FDIC or Code of Iowa Chapter 12C	\$ <u>1,666,828</u>	\$ <u>1,357,985</u>
Certificates of deposit		
Insured by FDIC or Code of Iowa Chapter 12C	\$ <u>1,295,576</u>	\$ <u>1,272,041</u>
Investments		
Edward D. Jones & Co., money market funds	\$ 10,160	\$ 40,692
Negotiable certificates of deposit	223,553	254,116
U.S. Government agency securities	93,884	20,347
Mutual funds	1,405,510	898,243
Iowa Public Agency Investment Trust	<u>813,812</u>	<u>1,105,743</u>
Totals	<u>\$2,546,919</u>	<u>\$2,319,141</u>

The carrying amount of deposits and investments are included in the Hospital's balance sheet as follows:

	<u>2004</u>	<u>2003</u>
Carrying amount		
Bank deposits	\$1,666,828	\$1,357,985
Certificates of deposit	1,295,576	1,272,041
Investments	<u>2,546,919</u>	<u>2,319,141</u>
Totals	<u>\$5,509,323</u>	<u>\$4,949,167</u>

The above amounts are included in the following balance sheet captions:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$1,662,299	\$1,349,191
Designated by board for plant replacement and expansion		
Cash and cash equivalents	716,510	1,040,794
Certificates of deposit	849,578	857,170
U.S. Government agency securities	93,434	19,333
Designated by board for deferred compensation		
Mutual funds	1,405,510	898,243
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	108,066	106,239
Certificates of deposit	670,000	670,000
Restricted by donors for specific purpose		
Cash	3,426	7,697
Other assets—other	<u>500</u>	<u>500</u>
Totals	<u>\$5,509,323</u>	<u>\$4,949,167</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST**

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of \$670,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

	<u>Year ended June 30, 2004</u>			<u>Year ended June 30, 2003</u>		
	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
<b>BALANCE</b> , beginning	\$670,000	\$106,239	\$776,239	\$670,000	\$103,267	\$773,267
Transfers from current assets						
cash and cash equivalents	—	829,571	829,571	—	826,260	826,260
Interest income	—	2,089	2,089	—	3,097	3,097
Payment of notes and interest	—	(829,833)	(829,833)	—	(826,385)	(826,385)
<b>BALANCE</b> , ending	<u>\$670,000</u>	<u>\$108,066</u>	<u>\$778,066</u>	<u>\$670,000</u>	<u>\$106,239</u>	<u>\$776,239</u>

**NOTE 4 PATIENT RECEIVABLES**

Patient accounts receivable reported as current assets consisted of these amounts:

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Receivable from patients	\$ 320,582	\$ 297,414
Receivable from insurance carriers	2,592,832	2,379,862
Receivable from Medicare	1,012,181	1,023,802
Receivable from Medicaid	<u>307,940</u>	<u>326,395</u>
Total patient receivables	4,233,545	4,027,473
Less allowances for contractual and other adjustments	<u>(1,584,656)</u>	<u>(1,084,632)</u>
Totals	<u>\$2,648,879</u>	<u>\$2,942,841</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 PROPERTY AND EQUIPMENT**

A summary of changes in property and equipment for the year ended June 30, 2004 and 2003 follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2004</u>
Land	\$ 601,087	\$ -	\$ -	\$ -	\$ 601,087
Land improvements	321,734	7,285	-	-	329,019
Buildings	10,524,378	8,894	-	-	10,533,272
Fixed equipment	3,378,212	-	-	-	3,378,212
Major movable equipment	6,084,338	979,860	(516,579)	-	6,547,619
Construction in progress	<u>30,500</u>	<u>1,885,808</u>	<u>-</u>	<u>-</u>	<u>1,916,308</u>
Totals	20,940,249	2,881,847	(516,579)	-	23,305,517
Less accumulated depreciation and amortization	<u>(9,682,448)</u>	<u>(1,023,553)</u>	<u>489,200</u>	<u>-</u>	<u>(10,216,801)</u>
Net property and equipment	<u>\$11,257,801</u>	<u>\$1,858,294</u>	<u>\$ (27,379)</u>	<u>\$ -</u>	<u>\$13,088,716</u>

Construction in progress at June 30, 2004 consisted primarily of costs incurred for the design and initial construction costs associated with the building of a 128,000 square foot replacement health campus. The total cost of this replacement campus is estimated at \$29,620,000 and is expected to be completed by the spring of 2006. This project is going to be funded primarily through a combination of USDA guaranteed bank loans, general obligation bonds by the Cities of Orange City and Alton, private capital campaign contributions, and reserves of the Hospital. As of June 30, 2004, outstanding obligations of approximately \$4,589,000 are remaining on signed construction related contracts.

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2003</u>
Land	\$ 601,087	\$ -	\$ -	\$ -	\$ 601,087
Land improvements	314,699	7,035	-	-	321,734
Buildings	9,970,549	-	-	553,829	10,524,378
Fixed equipment	3,363,485	14,727	-	-	3,378,212
Major movable equipment	5,704,381	571,748	(191,791)	-	6,084,338
Construction in progress	<u>143,169</u>	<u>441,160</u>	<u>-</u>	<u>(553,829)</u>	<u>30,500</u>
Totals	20,097,370	1,034,670	(191,791)	-	20,940,249
Less accumulated depreciation and amortization	<u>(8,851,533)</u>	<u>(1,022,706)</u>	<u>191,791</u>	<u>-</u>	<u>(9,682,448)</u>
Net property and equipment	<u>\$11,245,837</u>	<u>\$ 11,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,257,801</u>

**NOTE 6 PLEDGES RECEIVABLE**

At June 30, 2004 the Foundation's pledges receivable consisted of pledges to be used for the building of a new health campus and are discounted at 3.4%. An allowance has been established to offset future uncollectible pledges and has been estimated by management to be \$200,000 as of June 30, 2004.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PLEDGES RECEIVABLE (continued)**

A summary of the activity in pledges receivable for the year ended June 30, 2004 is as follows:

Pledges made during the year	\$4,142,188
Pledge payments received	(650,108)
Discount of future payments receivable	(280,450)
Allowance for uncollectible pledges receivable	<u>(200,000)</u>
 Total	 <u>\$3,011,630</u>

Pledges receivable at June 30, 2004, are expected to be received as follows:

Year ending June 30,		
2005	\$	895,554
2006		865,424
2007		865,424
2008		<u>865,678</u>
		3,492,080
Less allowance and discounts on pledges receivable		<u>(480,450)</u>
 Total		 <u>\$3,011,630</u>

**NOTE 7 LONG-TERM DEBT**

**Hospital Revenue Capital Loan Notes**

The City Council of Orange City adopted a resolution to issue a \$1,625,000 Hospital Revenue Refunding Capital Loan Notes Series 1997A dated December 1, 1997. The notes mature serially through June 1, 2006, with interest payable on June 1 and December 1 at annual rates varying from 5.25% to 5.3%.

	<u>Outstanding June 30</u>	
	<u>2004</u>	<u>2003</u>
	\$ 581,396	\$ 857,511

The City Council of Orange City adopted a resolution authorizing the issuance of \$4,650,000 of Hospital Revenue Capital Loan Notes Series 1997B dated December 1, 1997, to finance the construction of an independent and assisted living facility for senior citizens. The notes mature serially through June 1, 2017, with interest payable on June 1 and December 1 at annual rates varying from 5.25% to 6.0%. Notes maturing after June 1, 2008 may be called for redemption, in any order of maturity and within any maturity by lot, at par and accrued interest to date of call.

	3,792,619	3,987,964
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The City Council of Orange City adopted a resolution authorizing the issuance of \$500,000 of Hospital Revenue Capital Loan Notes Series 1998 dated February 1, 1998, to finance the improvement of the Hospital, including acquisition of a CT scanner and associated equipment and remodeling. The notes mature serially through June 1, 2006, with interest payable on June 1 and December 1 at annual rates varying from 4.95% to 5.0%. Notes maturing after June 1, 2003 may be called for redemption, in any order of maturity and within any maturity by lot, at par and accrued interest to date of call.

	<u>143,021</u>	<u>206,772</u>
	4,517,036	5,052,247

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

**Obligation Under Capital Leases**

The Hospital has entered into two agreements to acquire medical equipment under capital leases. The related liability under the leases at June 30, 2004 is \$69,726, net of unamortized interest of \$4,379. The obligation under the first lease calls for monthly installments of \$3,554 through June, 2005, including interest at a rate of 6.70%. The obligation under the second lease calls for monthly installments of \$1,564 through February, 2006, including interest at a rate of 5.90%. The total amount capitalized under the leases is \$261,318 with related accumulated amortization of \$198,449 at June 30, 2004.

	\$ <u>65,347</u>	\$ <u>118,829</u>
	4,582,383	5,171,076
Less current maturities	<u>625,090</u>	<u>599,823</u>
Total long-term debt	<u>\$3,957,293</u>	<u>\$4,571,253</u>

The capital loan notes are payable solely and only from the revenues of the Hospital which have been placed in the Sinking Fund and do not constitute an indebtedness of the City. The notes are reported net of unamortized discount of \$77,964 and \$87,753 as of June 30, 2004 and 2003, respectively.

The following summarizes the maturities of long-term debt:

	<u>Capital lease obligation</u>		<u>Revenue notes payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30				
2005	\$ 55,090	\$ 3,687	\$ 570,000	\$ 256,688
2006	10,257	692	600,000	226,973
2007	-	-	235,000	195,398
2008	-	-	245,000	182,708
2009	-	-	260,000	169,355
2010 to 2014	-	-	1,535,000	612,516
2015 to 2019	-	-	<u>1,150,000</u>	<u>139,390</u>
Total	<u>65,347</u>	<u>4,379</u>	4,595,000	1,783,028
Less unamortized discount	<u>-</u>	<u>-</u>	<u>(77,964)</u>	<u>-</u>
Totals	<u>\$ 65,347</u>	<u>\$ 4,379</u>	<u>\$4,517,036</u>	<u>\$1,783,028</u>

Long-term debt activity for the years ended June 30, 2004 and 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<b>2004</b>					
Hospital revenue notes	\$5,140,000	\$ -	\$ 545,000	\$4,595,000	\$ 570,000
Obligations under capital lease	<u>118,829</u>	<u>-</u>	<u>53,482</u>	<u>65,347</u>	<u>55,090</u>
Totals	<u>\$5,258,829</u>	<u>\$ -</u>	<u>\$ 598,482</u>	<u>\$4,660,347</u>	<u>\$ 625,090</u>
<b>2003</b>					
Hospital revenue notes	\$5,655,000	\$ -	\$ 515,000	\$5,140,000	\$ 545,000
Obligations under capital lease	<u>173,414</u>	<u>-</u>	<u>54,585</u>	<u>118,829</u>	<u>54,823</u>
Totals	<u>\$5,828,414</u>	<u>\$ -</u>	<u>\$ 569,585</u>	<u>\$5,258,829</u>	<u>\$ 599,823</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 LEASE COMMITMENT**

The Hospital leases a nursing home building and land under a lease expiring December 31, 2004. At the end of the lease term the Hospital has the option to purchase the property for \$380,000. The lease provides that the Hospital pay all property taxes, insurance, utilities and maintenance plus monthly rental of \$13,602. Future rental payments shall be increased or decreased by a percentage equal to the change in the Consumer Price Index compared to the immediately preceding calendar year. The total minimum rental commitment at June 30, 2004 under this lease is \$81,612.

The total lease expense included in the Statement of Revenues, Expenses, and Changes in Fund Equity for the years ended June 30, 2004 and 2003 was \$160,179 and \$158,715, respectively.

**NOTE 9 DEFINED BENEFIT PENSION PLAN**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$588,124, \$554,799 and \$484,075, respectively, equal to the required contributions for each year.

**NOTE 10 EMPLOYEE BENEFITS**

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$35,000 per person and approximately \$879,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2004 and 2003 was \$783,268 and \$648,203, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of \$1,405,510 and \$898,243 to reflect the fair value of these program assets as of June 30, 2004 and 2003, respectively, and related liability to participants.

**NOTE 11 MALPRACTICE CLAIMS**

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate for institutional claims and \$3,000,000 per claim and \$3,000,000 in the aggregate for physician claims.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 MALPRACTICE CLAIMS (continued)**

Incidents occurring through June 30, 2004 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**NOTE 12 NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare**

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement and Modernization Act of 2003) for services furnished before January 1, 2006, the Hospital's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 year. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2002.

**Medicaid**

Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per patient classification.

**Other**

The Hospital also has payment agreements with Blue Cross and other certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

**NOTE 13 CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2004 and 2003.

	<b>2004</b>	<b>2003</b>
Charges foregone, based on established rates	\$ <u>95,687</u>	\$ <u>197,391</u>
Equivalent percentage of charity care patients to all patients served	<u>0.3%</u>	<u>0.8%</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 HOSPITAL RISK MANAGEMENT**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 15 LANDSMEER RIDGE PROPERTY TAXES**

During the year ended June 30, 2004, the Hospital appealed to the Iowa Supreme Court a previous court ruling which decided that its senior living and assisted living facility (Landsmeer Ridge) was not exempt from taxation. The Iowa Supreme Court ruled in favor of Landsmeer Ridge, and as a result, \$254,932 of property taxes, that had been paid to the County Treasurer since Landsmeer Ridge's inception, was refunded to the Hospital.

**NOTE 16 ORANGE CITY AREA HEALTH FOUNDATION**

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital as of June 30, 2004. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. During the year ended June 30, 2004, the Foundation has received funds and secured significant pledge commitments in a capital campaign to benefit the Hospital's construction of a replacement campus. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made unrestricted contributions of \$3,060 and \$15,215 to the Hospital for the years ended June 30, 2004 and 2003, respectively. Also the Foundation made restricted contributions of \$16,500 to the Hospital for the year ended June 30, 2003. The Foundation's audited statement of financial position and unaudited statement of activities and statement of cash flows as of and for the year ended June 30, 2004 are included on pages 17 - 19.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

Board of Trustees  
Orange City Municipal Hospital  
d/b/a Orange City Health System  
Orange City, Iowa

Our report on our audits of the basic financial statements of Orange City Municipal Hospital d/b/a Orange City Health System appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 13, 2004

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
AGE ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>HOSPITAL PATIENTS</b>				
0 - 30 days	\$1,594,076	\$1,819,129	51.75%	60.02%
31 - 60 days	372,461	288,544	12.09	9.52
61 - 90 days	162,204	168,830	5.26	5.57
91 - 180 days	259,350	220,875	8.43	7.29
Over 6 months	<u>692,084</u>	<u>533,530</u>	<u>22.47</u>	<u>17.60</u>
Totals	<u>3,080,175</u>	<u>3,030,908</u>	<u>100.00%</u>	<u>100.00%</u>
<b>CLINIC PATIENTS</b>				
0 - 30 days	724,597	645,748	62.82%	64.80%
31 - 60 days	129,090	93,224	11.19	9.35
61 - 90 days	77,860	52,168	6.75	5.23
Over 91 days	<u>221,813</u>	<u>205,425</u>	<u>19.24</u>	<u>20.62</u>
Totals	<u>1,153,360</u>	<u>996,565</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectibles	532,000	431,000		
Contractual adjustments	<u>1,052,656</u>	<u>653,632</u>		
Total allowances	<u>1,584,656</u>	<u>1,084,632</u>		
Totals	<u>\$2,648,879</u>	<u>\$2,942,841</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>BALANCE</b> , beginning	\$ 431,000	\$ 403,878
Provision for bad debts	259,388	171,097
Recoveries of accounts written off previously	14,996	21,977
Accounts written off	<u>(173,384)</u>	<u>(165,952)</u>
<b>BALANCE</b> , ending	<u>\$ 532,000</u>	<u>\$ 431,000</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
INVENTORIES**

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
General stores	\$ 237,810	\$ 190,604
Central supply	58,917	53,021
Operating room	115,056	89,912
Radiology	10,282	10,105
Medical clinics	38,695	38,273
Laboratory	<u>20,597</u>	<u>20,897</u>
Totals	<u>\$ 481,357</u>	<u>\$ 402,812</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
INSURANCE COVERAGE  
June 30, 2004**

CHUBB Group of Insurance Companies (policy expiration June 30, 2005)	
Building and contents, builders risk, fire and extended coverage (100% co-insurance, replacement value)	\$23,628,921 \$5,000 deductible
Blanket earnings and expense	\$12,064,316
Fireman's Fund Insurance Company (policy expiration January 1, 2005)	
Directors' and officers' liability	\$1,000,000 \$25,000 retention
CHUBB Group of Insurance Companies (policy expiration July 1, 2004)	
Owned automobiles	
Liability	\$1,000,000
Collision	\$1,000 deductible
Uninsured/underinsured motorist	\$1,000,000
Blanket fidelity bond	
Employees	\$150,000 \$2,500 deductible
The Cincinnati Insurance Company (policy expiration January 1, 2005)	
Machinery and equipment	
Direct damage	\$15,000,000 \$1,000 deductible
PIC Wisconsin Insurance Company (policy expiration July 1, 2004)	
Employee benefit liability	\$1,000,000
Professional liability—institutional	\$1,000,000/3,000,000
Professional liability—physicians	\$3,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Umbrella professional liability	\$2,000,000
Umbrella liability hospital	\$2,000,000
Farm Bureau Mutual Insurance (policy expiration April 1, 2005)	
Workers' compensation	Statutory

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
PATIENT SERVICE REVENUE**

	<u>Total</u>		<u>Inpatient</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetric	\$ 1,576,604	\$ 1,431,294	\$1,410,179	\$1,340,348
Special care	60,750	54,015	60,750	54,015
Long term care	3,150,775	3,122,482	-	-
Nursery	143,908	141,214	143,694	141,079
	<u>4,932,037</u>	<u>4,749,005</u>	<u>1,614,623</u>	<u>1,535,442</u>
<b>OTHER NURSING SERVICES</b>				
Operating and recovery room	678,674	636,528	346,639	317,974
Same day surgery	1,610,674	1,324,315	-	-
Central service and supply	817,634	679,621	206,847	190,490
Emergency service	811,011	680,158	144,957	124,705
Ambulance	215,898	206,105	14,122	23,428
Home Health	598,859	552,693	-	-
	<u>4,732,750</u>	<u>4,079,420</u>	<u>712,565</u>	<u>656,597</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	2,102,292	1,752,800	439,298	384,307
Radiology	3,503,972	3,093,845	376,591	371,419
Pharmacy	2,960,149	3,067,716	866,886	818,870
Anesthesiology	960,919	715,893	280,701	217,986
Respiratory therapy and oxygen	353,625	425,754	162,800	204,409
Physical therapy	769,649	593,951	28,864	24,771
Cardio pulmonary	368,654	371,462	49,130	64,389
Pulmonary rehabilitation	6,665	250	6,665	181
Speech therapy	5,870	18,912	539	3,190
Audiology	376,063	293,744	-	-
Orange City medical clinic	4,433,376	4,122,440	-	-
Hospers medical clinic	185,184	214,976	-	-
Paullina medical clinic	431,277	379,752	-	-
Specialty clinics	158,983	192,249	110	82
Otolaryngology	1,821,978	1,745,037	-	-
Orthopedics	767,152	-	-	-
	<u>19,205,808</u>	<u>16,988,781</u>	<u>2,211,584</u>	<u>2,089,604</u>
	28,870,595	25,817,206	<u>\$4,538,772</u>	<u>\$4,281,643</u>
Charity care charges foregone, based on established rates	<u>95,687</u>	<u>197,391</u>		
Total gross patient service revenue	28,774,908	25,619,815		
Provisions for contractual and other adjustments	<u>6,905,920</u>	<u>5,477,103</u>		
Net patient service revenue	<u>\$21,868,988</u>	<u>\$20,142,712</u>		

<u>Outpatient</u>		<u>Swing bed</u>		<u>Intermediate care unit</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
\$ 166,425	\$ 90,740	\$ -	\$ 206	\$ -	\$ -
-	-	-	-	-	-
-	-	339,620	285,950	2,811,155	2,836,532
214	135	-	-	-	-
<u>166,639</u>	<u>90,875</u>	<u>339,620</u>	<u>286,156</u>	<u>2,811,155</u>	<u>2,836,532</u>
332,035	318,064	-	490	-	-
1,610,674	1,324,315	-	-	-	-
507,563	381,381	18,509	6,475	84,715	101,275
664,277	555,453	1,777	-	-	-
201,651	182,677	125	-	-	-
598,859	552,693	-	-	-	-
<u>3,915,059</u>	<u>3,314,583</u>	<u>20,411</u>	<u>6,965</u>	<u>84,715</u>	<u>101,275</u>
1,603,910	1,322,235	59,084	46,258	-	-
3,110,420	2,701,706	16,961	20,720	-	-
1,640,220	1,978,530	392,487	180,827	60,556	89,489
672,340	496,355	7,878	1,552	-	-
112,167	89,685	78,658	131,660	-	-
657,659	486,966	83,126	82,214	-	-
307,493	304,091	12,031	2,982	-	-
-	69	-	-	-	-
5,331	15,722	-	-	-	-
376,063	293,744	-	-	-	-
4,433,376	4,122,440	-	-	-	-
185,184	214,976	-	-	-	-
431,277	379,752	-	-	-	-
158,873	192,167	-	-	-	-
1,821,978	1,745,037	-	-	-	-
767,152	-	-	-	-	-
<u>16,283,443</u>	<u>14,343,475</u>	<u>650,225</u>	<u>466,213</u>	<u>60,556</u>	<u>89,489</u>
<u>\$20,365,141</u>	<u>\$17,748,933</u>	<u>\$1,010,256</u>	<u>\$ 759,334</u>	<u>\$2,956,426</u>	<u>\$3,027,296</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Contractual adjustments	\$5,551,434	\$4,286,350
Clinic discounts and adjustments	1,095,098	1,019,656
Provision for bad debts	<u>259,388</u>	<u>171,097</u>
Totals	<u>\$6,905,920</u>	<u>\$5,477,103</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Cafeteria	\$ 103,579	\$ 106,972
Other	252,061	142,596
Lifeline	21,587	19,143
Landsmeer Ridge	973,129	939,541
Landsmeer Ridge property tax refund	<u>254,932</u>	<u>—</u>
Totals	<u>\$1,605,288</u>	<u>\$1,208,252</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>NURSING ADMINISTRATION</b>		
Salaries	\$ 74,532	\$ 74,102
Supplies and expenses	<u>13,493</u>	<u>27,642</u>
	<u>88,025</u>	<u>101,744</u>
<b>MEDICAL, SURGICAL AND OBSTETRIC</b>		
Salaries	941,126	936,599
Supplies and expenses	<u>135,385</u>	<u>145,122</u>
	<u>1,076,511</u>	<u>1,081,721</u>
<b>SPECIAL CARE</b>		
Salaries	16,414	13,978
Supplies and expenses	<u>375</u>	<u>224</u>
	<u>16,789</u>	<u>14,202</u>
<b>SWING BED</b>		
Salaries	79,666	84,566
Supplies and expenses	<u>365</u>	<u>327</u>
	<u>80,031</u>	<u>84,893</u>
<b>INTERMEDIATE CARE</b>		
Hospital		
Salaries	572,280	562,840
Purchased services	29,547	97,706
Supplies and expenses	108,895	140,056
Heritage House		
Salaries	1,097,893	1,111,792
Supplies and expenses	<u>439,645</u>	<u>521,072</u>
	<u>2,248,260</u>	<u>2,433,466</u>
<b>NURSERY</b>		
Salaries	41,020	37,233
Supplies and expenses	<u>4,443</u>	<u>5,779</u>
	<u>45,463</u>	<u>43,012</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries	360,652	303,692
Supplies and expenses	<u>210,188</u>	<u>131,391</u>
	<u>570,840</u>	<u>435,083</u>
<b>CENTRAL SERVICE AND SUPPLY</b>		
Salaries	22,457	22,686
Billable supplies	326,661	276,371
Supplies and expenses	<u>5,415</u>	<u>8,347</u>
	<u>354,533</u>	<u>307,404</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
NURSING SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>EMERGENCY SERVICE</b>		
Salaries	\$ 179,530	\$ 186,062
Supplies and expenses	<u>10,247</u>	<u>16,091</u>
	<u>189,777</u>	<u>202,153</u>
<b>AMBULANCE</b>		
Salaries	55,680	53,874
Supplies and expenses	<u>13,735</u>	<u>16,207</u>
	<u>69,415</u>	<u>70,081</u>
<b>HOME HEALTH</b>		
Salaries	370,930	336,538
Purchased services	58,709	62,485
Supplies and expenses	<u>64,476</u>	<u>59,276</u>
	<u>494,115</u>	<u>458,299</u>
 Totals	 <u>\$5,233,759</u>	 <u>\$5,232,058</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>LABORATORY</b>		
Salaries	\$ 219,695	\$ 212,399
Professional fees	125,412	115,065
Supplies and expenses	<u>202,025</u>	<u>194,099</u>
	<u>547,132</u>	<u>521,563</u>
<b>RADIOLOGY</b>		
Salaries	683,475	645,337
Professional fees	53,929	34,021
Purchased services	383,136	303,873
Supplies and expenses	<u>183,791</u>	<u>162,881</u>
	<u>1,304,331</u>	<u>1,146,112</u>
<b>PHARMACY</b>		
Salaries	52,106	45,441
Purchased services	1,110,517	1,048,326
Drugs	2,254	17,912
Supplies and expenses	<u>1,747</u>	<u>1,630</u>
	<u>1,166,624</u>	<u>1,113,309</u>
<b>ANESTHESIOLOGY</b>		
Salaries	208,583	176,147
Professional fees	114,625	78,137
Supplies and expenses	<u>14,138</u>	<u>5,214</u>
	<u>337,346</u>	<u>259,498</u>
<b>RESPIRATORY THERAPY</b>		
Salaries	60,027	60,075
Oxygen	12,962	12,297
Supplies and expenses	<u>37,665</u>	<u>32,248</u>
	<u>110,654</u>	<u>104,620</u>
<b>PHYSICAL THERAPY</b>		
Salaries	56,321	53,357
Purchased services	396,923	300,619
Supplies and expenses	<u>13,632</u>	<u>10,865</u>
	<u>466,876</u>	<u>364,841</u>
<b>CARDIO PULMONARY</b>		
Salaries	9,270	11,302
Purchased services	65,078	67,419
Supplies and expenses	<u>1,317</u>	<u>1,294</u>
	<u>75,665</u>	<u>80,015</u>
<b>PULMONARY REHABILITATION</b>		
Salaries	935	46
Supplies and expenses	<u>4</u>	<u>52</u>
	<u>939</u>	<u>98</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>SPEECH THERAPY</b>		
Purchased services	\$ 2,646	\$ 8,920
<b>AUDIOLOGY</b>		
Salaries	92,444	111,638
Purchased services	4,846	351
Supplies and expenses	<u>106,643</u>	<u>73,282</u>
	<u>203,933</u>	<u>185,271</u>
<b>OCCUPATIONAL HEALTH SERVICES</b>		
Salaries	57,166	53,226
Purchased services	1,906	2,631
Supplies and expenses	<u>7,671</u>	<u>13,790</u>
	<u>66,743</u>	<u>69,647</u>
<b>ORANGE CITY MEDICAL CLINIC</b>		
Salaries	2,282,114	2,157,737
Purchased services	547,740	487,808
Medical supplies	133,364	129,067
Supplies and expenses	43,866	58,833
Utilities	14,556	14,209
Postage	5,344	5,350
Telephone	11,496	12,149
Insurance	78,074	62,880
Employee benefits	<u>394,786</u>	<u>360,130</u>
	<u>3,511,340</u>	<u>3,288,163</u>
<b>HOSPERS MEDICAL CLINIC</b>		
Salaries	134,623	137,930
Purchased service	26,105	31,585
Medical supplies	8,886	5,150
Supplies and expenses	15,312	18,432
Utilities	1,166	1,316
Telephone	3,031	2,794
Employee benefits	<u>21,467</u>	<u>19,483</u>
	<u>210,590</u>	<u>216,690</u>
<b>PAULLINA MEDICAL CLINIC</b>		
Salaries	271,106	257,182
Purchased service	73,810	63,954
Medical supplies	27,960	21,040
Supplies and expenses	24,175	20,891
Utilities	3,636	3,381
Telephone	7,053	7,632
Employee benefits	<u>49,475</u>	<u>46,120</u>
	<u>457,215</u>	<u>420,200</u>
<b>SPECIALTY CLINICS</b>		
Salaries	165,613	169,177
Supplies and expenses	<u>27,330</u>	<u>24,404</u>
	<u>192,943</u>	<u>193,581</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>OTOLARYNGOLOGY</b>		
Salaries	\$ 827,393	\$ 804,324
Purchased services	19,929	24,788
Supplies and expenses	<u>123,507</u>	<u>133,525</u>
	<u>970,829</u>	<u>962,637</u>
<b>ORTHOPEDICS</b>		
Salaries	276,639	—
Purchased services	111,515	—
Supplies and expenses	<u>75,695</u>	<u>—</u>
	<u>463,849</u>	<u>—</u>
<b>LANDSMEER RIDGE</b>		
Salaries	315,951	310,393
Purchased services	21,207	18,860
Medical supplies	1,025	1,160
Supplies and expenses	134,537	135,565
Utilities	65,678	62,214
Telephone	4,599	5,067
Insurance	3,720	3,720
Property taxes	<u>—</u>	<u>108,226</u>
	<u>546,717</u>	<u>645,205</u>
<b>SOCIAL SERVICE</b>		
Salaries	61,486	56,731
Supplies and expenses	<u>479</u>	<u>368</u>
	<u>61,965</u>	<u>57,099</u>
<b>MEDICAL RECORDS</b>		
Salaries	118,809	128,879
Supplies and expenses	<u>22,656</u>	<u>16,922</u>
	<u>141,465</u>	<u>145,801</u>
 Totals	 <u>\$10,839,802</u>	 <u>\$9,783,270</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>DIETARY</b>		
Salaries	\$ 213,796	\$ 208,996
Food	205,899	201,114
Supplies and expenses	<u>56,749</u>	<u>58,976</u>
	<u>476,444</u>	<u>469,086</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries	125,619	113,910
Utilities	153,830	136,853
Purchased services	10,501	15,755
Supplies and expenses	<u>65,009</u>	<u>66,865</u>
	<u>354,959</u>	<u>333,383</u>
<b>HOUSEKEEPING</b>		
Salaries	117,066	86,048
Supplies and expenses	<u>37,868</u>	<u>31,851</u>
	<u>154,934</u>	<u>117,899</u>
<b>LAUNDRY AND LINEN</b>		
Salaries	7,259	7,738
Supplies and expenses	<u>5,085</u>	<u>4,858</u>
	<u>12,344</u>	<u>12,596</u>
 Totals	 <u>\$ 998,681</u>	 <u>\$ 932,964</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
FISCAL AND ADMINISTRATIVE SERVICE  
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>		
<b>Administrative and general</b>		
Salaries	\$ 494,628	\$ 422,572
Management fees	259,374	333,625
Professional services	36,065	37,868
Collection	29,693	14,657
Telephone	49,004	48,160
Supplies and expenses	<u>278,686</u>	<u>252,311</u>
	<u>1,147,450</u>	<u>1,109,193</u>
<b>Human resources</b>		
Salaries	91,161	85,786
Supplies and expenses	<u>65,037</u>	<u>87,853</u>
	<u>156,198</u>	<u>173,639</u>
<b>Regulatory affairs</b>		
Salaries	52,641	49,312
Supplies and expenses	<u>2,362</u>	<u>4,308</u>
	<u>55,003</u>	<u>53,620</u>
<b>Community relations</b>		
Salaries	60,055	57,177
Supplies and expenses	<u>9,445</u>	<u>29,990</u>
	<u>69,500</u>	<u>87,167</u>
<b>Receiving and stores</b>		
Salaries	96,730	85,197
Supplies and expenses	<u>29,382</u>	<u>12,382</u>
	<u>126,112</u>	<u>97,579</u>
<b>Wellness</b>		
Salaries	-	60
Total fiscal and administrative expenses	<u>1,554,263</u>	<u>1,521,258</u>
<b>UNASSIGNED EXPENSES</b>		
Employee benefits		
Payroll taxes	1,015,044	958,665
Group health insurance	619,255	502,526
Other	97,559	100,553
Insurance	<u>227,638</u>	<u>240,197</u>
Total unassigned expenses	<u>1,959,496</u>	<u>1,801,941</u>
Totals	<u>\$3,513,759</u>	<u>\$3,323,199</u>

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
COMPARATIVE STATISTICS**

	<b><u>Year ended June 30</u></b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
<b>PATIENT DAYS</b>		
Adult and pediatric	2,963	2,999
Nursery	432	482
Swing bed		
Skilled nursing care	1,623	1,404
Intermediate care	91	59
Intermediate care		
Hospital	11,399	11,683
Heritage House	<u>15,776</u>	<u>17,308</u>
Totals	<u>32,284</u>	<u>33,935</u>
<b>ADMISSIONS</b>		
Adult and pediatric	1,020	1,025
Swing bed		
Skilled nursing care	209	187
Intermediate care	20	18
Intermediate care		
Hospital	27	14
Heritage House	<u>31</u>	<u>19</u>
Total admissions	<u>1,307</u>	<u>1,263</u>
<b>DISCHARGES</b>		
Adult and pediatric	1,026	1,019
Swing bed		
Skilled nursing care	206	191
Intermediate care	19	19
Intermediate care		
Hospital	27	16
Heritage House	<u>38</u>	<u>26</u>
Total discharges	<u>1,316</u>	<u>1,271</u>
<b>AVERAGE LENGTH OF STAY</b>		
Adult and pediatric	2.87	2.94
Swing bed		
Skilled nursing care	7.88	7.35
Intermediate care	4.80	3.10
Intermediate care		
Hospital	422.19	730.19
Heritage House	415.16	665.69

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
COMPARATIVE STATISTICS (continued)**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>BEDS</b>		
Adult, pediatric and swing bed	30	30
Intermediate care		
Hospital	33	33
Heritage House	50	50
<b>OCCUPANCY PERCENT</b>		
Adult, pediatric and swing bed	42.5%	40.7%
Intermediate care		
Hospital	94.4%	97.0%
Heritage House	86.2%	94.8%
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>		
Hospital	\$44,755	\$42,181
Medical Clinics	\$14,996	\$13,005
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR</b>		
Hospital	45.4	51.2
Medical Clinics	56.8	60.3

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Orange City Municipal Hospital  
d/b/a Orange City Health System  
Orange City, Iowa

We have audited the financial statements of Orange City Municipal Hospital d/b/a Orange City Health System as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Orange City Municipal Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Orange City Municipal Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of The City of Orange City and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 13, 2004

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part I—Findings Related to the Financial Statements**

No matters regarding reportable conditions, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Orange City Municipal Hospital  
d/b/a Orange City Health System  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part II—Findings Related to Required Statutory Reporting**

**04-II-A OFFICIAL DEPOSITORIES**

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amount stated in the resolution were not exceeded during the year ended June 30, 2004.

**04-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**04-II-C TRAVEL EXPENSES**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**04-II-D BUSINESS TRANSACTIONS**

No transactions between the Hospital and a Hospital official were noted.

**04-II-E BOARD MINUTES**

No transactions were found that we believe should have been approved in the Board minutes but were not.

**04-II-F DEPOSITS AND INVESTMENTS**

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.